

PHOKWANE MUNICIPALITY
FINAL BUDGET EXECUTIVE SUMMARY
2016/2017

MUNICIPAL BUDGET

1. DEFINITION OF A MUNICIPAL BUDGET

A municipal budget is generally a projection of future revenues and expenditure. A budget is used to control financial transactions and should also be used as a management and planning tool.

It is also a tool for implementing the service delivery objectives of the Municipality as set out in their Integrated Development Plan.

A Municipal budget also provides for greater transparency, accountability, flexibility and predictability within the municipality.

1.1.1 A Municipality budget is divided into Capital and Operating Budget:

a) A capital budget is an estimate of the expenses that will be incurred during that financial year to create future benefits, and the sources of finance from which these expenses will be funded. The municipality spends money either to buy fixed assets or to add to the value of an existing fixed assets with a useful life that extends beyond one year. Fixed assets include, inter alia, land and buildings, motor vehicles, furniture, computers, office equipment and machinery.

b) An operating budget is an estimate of the operating revenues which will accrue to the municipality through its normal service delivery and the expenditure that will be incurred through the day to day operations of the municipality over the financial year.

1.1.2 OBJECTIVE OF A MUNICIPAL BUDGET

The main objective of a municipal budget is to sensibly expected resources to the municipality's service delivery goals or performance objectives identified as priorities in the approved IDP.

2. BUDGET OVERVIEW

The MFMA and the MBRR give guidance on the preparation of the annual budgets as well as the National Treasury's Circulars that are issued from time to time.

In summary the total budget of the municipality for 2016/2017 MTREF is presented in the table below:

Overview of the 2016/17 MTREF	Budget Year 2016/17	Year 2017/18	Year 2018/19
Total Operating Revenue	288 348 535	304 490 651	345 125 465
Total Operating Expenditure	285 132 090	304 668 461	323 226 410
Surplus/(Deficit) for the year	3 216 445	-177 810	21 899 055

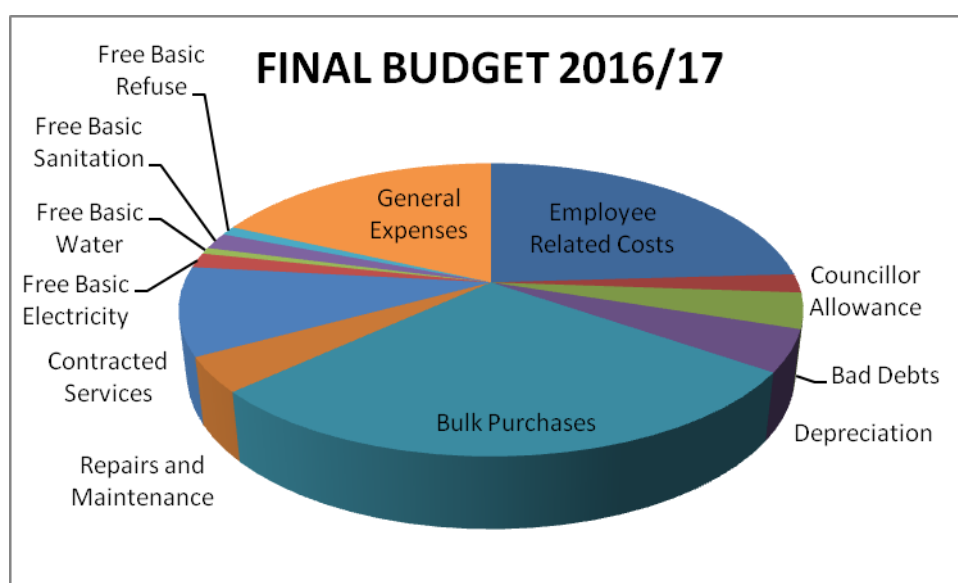
3. Operating Expenditure

The operating budget of the municipality is split between operating revenue by source, expenditure by type and expenditure by vote. Operating expenditure budget is compiled using various approaches, the zero-based budget approach, incremental budgeting using prior years' experience and management's best estimates as well as needs based budgeting.

The total operating expenditure budget has increased from R278 million as per the 2015/16 adjusted budget to R285 million for 2016/17, thus an average increase from the baseline of 2.35%. The tariff increases for all services for the period is 6.6% and electricity set to increase by 7.64%, which is in line with the tariff guidelines as provided by NERSA. The table below presents the operating expenditure as follows:

OPERATING EXPENDITURE	ADJUSTMENT BUDGET	BUDGET 2016/17	VARIANCE	%
Employee Related Costs	64 734 343	68 628 558	-3 894 215	6%
Councillor Allowance	5 542 194	5 874 726	-332 532	6%
Bad Debts	10 485 898	11 177 967	-692 069	6,6%
Depreciation	12 293 106	13 104 451	-811 345	6,6%
Bulk Purchases	76 238 458	81 270 196	-5 031 738	6,6%
Repairs and Maintenance	10 329 985	11 010 049	-680 064	6,6%
Contracted Services	24 640 822	27 767 116	-3 126 294	6,6%
Free Basic Electricity	4 394 491	4 684 527	-290 036	6,6%
Free Basic Water	1 873 840	1 997 513	-123 673	6,6%
Free Basic Sanitation	4 836 089	5 155 271	-319 182	6,6%
Free Basic Refuse	2 661 954	2 837 683	-175 729	6,6%
General Expenses	60 392 857	51 624 033	8 768 824	6,6%
Total	278 424 037	285 132 090	-6 708 053	-2,35

CHART: PERCENTAGE APPORTIONMENT OF 2016/2017 OPERATING EXPENSES



The municipality's operating expenditure is projected at R285 million with employee costs amount to R68 million of the total operating budget, and costs of bulk purchases amount to R81 million. Employee costs represent 26,13% of the projected expenditure, taking into consideration wage negotiation increase of 6% as per agreement with South African local Government Bargaining Council, remuneration of councillors 6% increase has been used to estimate total cost to the municipality for all Councillors, whilst bulk purchases takes about 28% of the total operating expenditure. The bulk tariff increases are determined by the relevant authorities, NERSA for electricity and Department of Water Affairs for bulk water. The municipality purchases electricity from Eskom.

The provision for debt impairment was based on collection rates achieved to date and projected over the MTREF period, as well as the municipality's arrears and debt recovery policies. For the 2016/17 financial year this amount equates to R11 million. While this expenditure is considered to be a non-cash flow item, it informs the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues and budget for depreciation amounts to R13 million for the 2016/17 financial year.

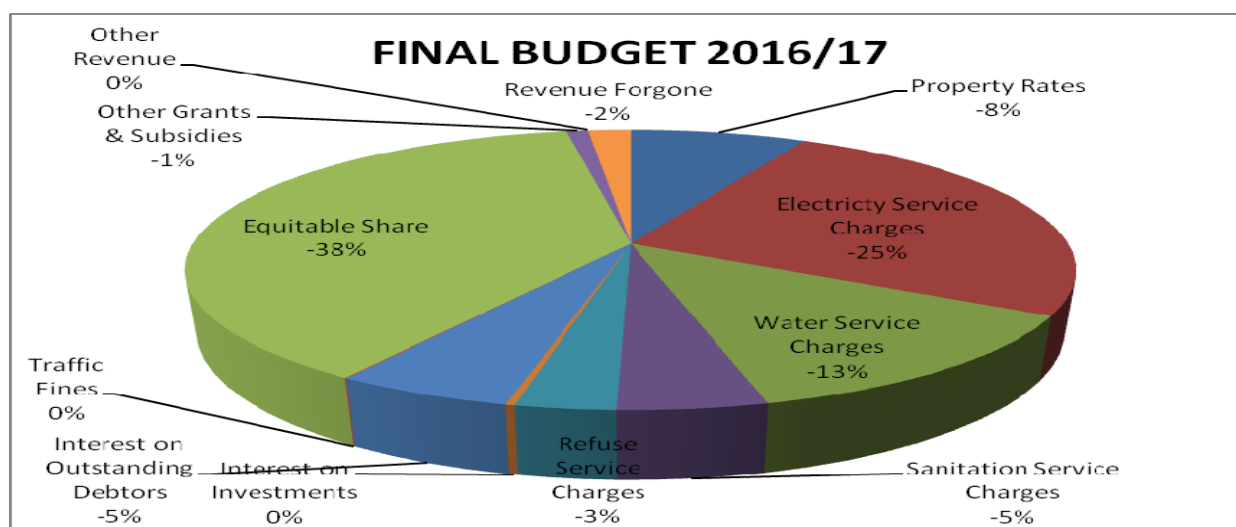
4. Operating Revenue

The operating revenue for the 2016/17 financial year has increased from R259 million as per the adjustment budget to R288 million excluding capital transfers, which represents a 9.86% increase. Total grants including capital transfers amount to R141 million. The equitable share has increased from R95 million to R109 million and FMG has increased from R1, 6 million to R1, 8 million and MSIG has decreased from R930 thousand to R750 thousand due to slow or expenditure, other revenue sources increasing from R4 million to R5 million.

The table below shows revenue by source:

OPERATING REVENUE	ADJUSTMENT BUDGET	FINAL BUDGET	VARIANCE
Property Rates	-20 748 691	-22 118 105	1 369 414
Electricity Service Charges	-68 054 037	-73 259 237	5 205 200
Water Service Charges	-34 574 478	-36 856 394	2 281 916
Sanitation Service Charges	-12 356 858	-13 172 411	815 553
Refuse Service Charges	-8 246 122	-8 790 366	544 244
Interest on Investments	-522 054	-800 000	277 946
Interest on Outstanding Debtors	-14 456 111	-15 710 214	1 254 103
Traffic Fines	-84 440	-178 900	94 460
Equitable Share	-95 354 000	-109 468 000	14 114 000
Other Grants & Subsidies	-3 451 000	-2 684 550	-766 450
Revenue Forgone	2 245 541	-	2 245 541
Other Revenue	-4 302 323	-5 310 360	1 008 037
Total	-259 904 573	-288 348 535	28 443 962

CHART: PERCENTAGE APPORTIONMENT OF 2016/2017 OPERATING EXPENSES



4.1.1 Service Charges Tariffs

The municipality is raising revenue by means of service charges from all its services. All service charges and tariffs are determined by NERSA guidelines for tariff increases and MFMA Circular guidelines with the objective of cost recovery rather than making profits. The average tariff increase increases is depicted in the Table below:

Current Tariff 2015/2016		Percentage	New Proposed Tariff 2016/2017		Percentage
Refusal Removal			Refusal Removal		
Domestic	54.41	6,00%	Domestic	58,00	6,60%
Business	84.69	6,00%	Business	90,28	6,60%
Schools	43.25	6,00%	Schools	46,10	6,60%
Business Bulk	110.82	6,00%	Business Bulk	118,13	6,60%
Sewerage:			Sewerage:		
Domestic	89.27	6,00%	Domestic	95,16	6,60%
Business	44.12	6,00%	Business	47,03	6,60%
Flats	89.27	6,00%	Flats	95,16	6,60%
Vacuum	130.98	6,00%	Vacuum	139,62	6,60%
Electricity : Basic Charge :	117.94	12.2%	Electricity : Basic Charge :	126,95	7,64%
0-50	0.7991	0.063	0-50	0,8742	7,64%
51-350	1.0025	0.073	51-350	1,0967	7,64%
351-600	1.4098	0.122	351-600	1,5423	7,64%
>600	1.6748	0.122	>600	1,8322	7,64%

Water			Water		
0-50	37.11	6%	0-50	39,56	6,6%
51-350	109.63	6%	51-350	116,87	6,6%
351-600	485.52	6%	351-600	517,56	6,6%
>600	78.24	6%	>600	83,40	6,6%
0-6	7.25	6%	0-6	7,73	6,6%
10-Jun	11.07	6%	10-Jun	11,80	6,6%
10-50	12.71	6%	10-50	13,55	6,6%
50-100	14.85	6%	50-100	15,83	6,6%
100-999	17.71	6%	100-999	18,88	6,6%
Property Rates			Property Rates		
Business: 20% Rebates	0.00984	6%	Business: 0,0% Rebates	0,01049	6,6%
Residential: 20% Rebates	0.00984	6%	Residential: 0,0% Rebates	0,01049	6,6%
PSI: 20% Rebates	0.00984	6%	PSI: 0,0% Rebates	0,01049	6,6%
Government: 20% Rebates	0.00984	6%	Government: 0,0% Rebates	0,01049	6,6%
Schools: 20% Rebates	0.00984	6%	Schools: 0,0% Rebates	0,01049	6,6%
Industrial: 0% Rebates	0.0123	6%	Industrial: 0% Rebates	0,0131	6,6%
Churches: 0% Rebates	0.0123	6%	Churches: 0% Rebates	0,0131	6,6%
Agriculture: 0% Rebates	0.003075	6%	Agriculture: 0% Rebates	0,003278	6,6%

As can be seen in the table above, the average tariff increase for all services is 6.6% compared to an average of 6% of the previous year, with electricity increase of 7.64%. The NERSA's guidelines on municipal electricity price increase for 2016/17 has been used to determine the price increases. The CPI projected in the guideline is 7.64%. These guidelines provide for an increase of 7.64% and an application will be submitted as such.

Property rates are levied in line with the Municipal Property Rates Act and the Policy as approved by the Council.

5. Capital Budget 2016/17

The capital budget of the municipality is funded from grants and subsidies from government as well as own revenue sources. The DoRA has been published; capital transfers and grants allocated to the municipality amounts to R27, 5million. These grants are MIG at R25 million, FMG at R600 thousand, MSIG at R400 thousand, INEP at R1, 5 million. The internal projects are funded for R3, 2 million from our surplus.

The table below depicts capital projects for 2016/17

CAPITAL BUDGET 2016/2017		
PROJECTS	AMOUNT	FUNDING
Pampierstad: Bulk Water Infrastructure Phase 2(1302)	838 930	MIG
Ganspan Waste Water Treatment Works & Related Bulk Sewer Structure	10 000 000	MIG
Kingston:Construction of Roads and Storm Water-Phase 1(1224)	6 034 135	MIG
Upgrading of Street and Stormwater in Valspan LIC Project Phase-1	4 792 957	MIG
Installation of High mast light in (Sakhile, masakeng, kingston, bonita park 127, Ganspan)	3 397 977	MIG
Electrification of Guldentskat Township 700 Stands and Upgrading of Bulk	1 500 000	INEP
Server Room Upgrade: IT mSCOA	350 000	FMG
Power Generator: IT mSCOA	100 000	FMG
Firewall: IT mSCOA	50 000	FMG
Internet Line Upgrade: IT mSCOA	30 000	FMG
Disaster Recovery Site: IT mSCOA	70 000	FMG
Replacement of Old Computers: IT mSCOA	80 000	MSIG
Server Recovery Licenses: IT mSCOA	320 000	MSIG
Refurbishment of Old System & Fencing, Valspan WWTW	4 500 000	FBDM
Guldenskat: Water & sanitation 608 Stands	500 000	FBDM
Hospital View Bulk Electricity Supply & Reticulation	800 000	INTERNAL
Mini-sub Station Roويمير	500 000	INTERNAL
Tipper	700 000	INTERNAL
Main Substation Capacitors Bank	200 000	INTERNAL
Borehole Unit	200 000	INTERNAL
Fencing Community Hall Pampierstad	150 000	INTERNAL
Tarr Machine	160 000	INTERNAL
Wheet Eaters	80 000	INTERNAL
Compactor	80 000	INTERNAL
Surface Cutter	80 000	INTERNAL
Goat Farming Structure	50 000	INTERNAL
Pole Structure Conroy street	20 000	INTERNAL
Water & Sewer Pumps	20 000	INTERNAL
Speed Bumps	70 000	INTERNAL
Balance and Puncture Equipment	60 000	INTERNAL
Kerbs	30 000	INTERNAL
Radio's	10 000	INTERNAL
Desktop Printers	5 000	INTERNAL
TOTAL	35 778 999	

- MIG- Municipal Infrastructure Grant
- MSIG – Municipal Systems Improvement Grant
- FMG – Financial Management Grant
- INEP – Integrated National Electrification Programme
- FBDM – Frances Baard District Municipality

6. Annual Budget Overview Process

Section 24 of the MFMA requires the municipal council to, at least 30 days before the start of the financial year; consider the annual budget for approval. Whilst section 53 requires the Mayor of a municipality to provide general political guidance over the budget process and the priorities that must guide the preparation of the budget. Re-allocation of resources was considered in terms of the IDP review, budget realities and sundry strategic considerations.

6.1.1 Budget process overview

Section 21 of the MFMA requires the Mayor to table a time schedule that sets out the process to draft the IDP and prepare the budget, 10 months before the start of the new financial year.

7. Overview of Budget Related Policies

All policies need to be reviewed on an annual basis, and amended policies will be tabled in Council together with the annual budget during a Special Council Meeting to be held on 31 May 2016. Policies that were reviewed are:

7.1.1 Travelling and subsistence allowance policy

Amendments made as follows:

- Accommodation rates are payable as follows:
 - Radius of 200 km from Phokwane Municipality R960.00
 - Radius between 200 km and 500 km R1,225.00
 - Radius greater than 500 km R1,450 .00
 - If the cost exceeds amounts allocated to the above, then three quotations must be obtained by the representatives.
 - Accommodation will be paid directly by the Municipality.
- If a representative travel on the business of the Municipality for:
 - a day or part of the day then R150.00 allowance is payable.
 - if sleeping over but accommodation is paid by the Municipality, R380.00 daily allowance is payable.
 - If staying with a friend or relative, then R750.00 daily allowance is payable.
 - Attendance register must be submitted for courses, workshops, meetings attended by officials and Councillors.

- Failure to submit attendance register will leave the Municipality with no option but to deduct amount paid for subsistence and travelling from the Official or Councillor salaries
- If the representative utilised his / her personal vehicle, s/he will be reimbursed at R3.29 per kilometre as prescribed by SARS irrespective of the vehicle engine capacity.
- Candidates invited for interview will be reimbursed at R3.29 per kilometre as prescribed by SARS irrespective of the vehicle engine capacity and if s/he has to travel more than 50 km to attend the interview.
- **N.B** This amount of R3.29 per kilometre is subject to change as we are still waiting for confirmation from SARS and the correct amount will be included in the final document

7.1.2 Credit Control and Debt Collection Policy (review)

Amendments made are as follows:

- Incentive will no longer be awarded for settlement of the municipal account by the 10th of every month, from July 2016.
- Council may hand deliver, or send per mail/email and sms to the last recorded address and contact number of the consumer, a discontinuation notice informing such consumer.
- No account will be opened in the Tenant's name. In the case of rentals, the owner may open the account in his name as a tenant.

7.1.2 Cash Management and Investment Policy

No amendments done

7.1.4 Supply Chain Management Policy:

Amendments made are as follows:

- Requirements for construction and engineering related bids should be awarded according to CIDB Regulations;
- ensure that the prospective providers of goods and services have registered on the national database: (CSD) Centralized Supplier Database as on or before 01 July 2016
- A minimum of R50.00 must be paid for the quotation pack compiled by SCM
- *Non-refundable deposit set for the tender document according to the tender threshold::*
 - Tender above R200 000 and below R500 000 - R200.00
 - Tender above R500 000.00 and below R1m - R350.00
 - Tender above R1m and below R5m - R500.00

- Tenders above R5m and long term contracts - R1 000.00
- Tender for banking services - R2 500.00

• check in respect of the recommended bidder whether municipal rates and taxes and municipal service charges are not in arrears for 90 days or more by means of comparing the company's registration documents, and the submitted municipal account, where the municipal account's address differs from the address appearing on the company's registration documents an affidavit done under oath must be submitted. In the event where the bidder's residential and business address is from the village where the municipality is not providing services a letter from the tribal authority, the confirmation letter from Eskom for electricity and the affidavit will be acceptable and;

7.1.5 Inventory Management Policy

No amendments

7.1.6 Irregular Expenditure

No amendments

7.1.7 Asset Management

No amendments

7.1.8 Indigent Policy

Amendments were made as follows:

- Indigent relief will be granted to a household where –
 - the total gross monthly household income is less than or equal to two (2) times the prevailing social monthly pension pay-out, which is the amount of R3000.00, and where the household can no longer afford to pay for the services due to unemployment
- The following documentation should accompany the application form:
 - The applicant's original ID document, whereby the municipality will make a copy thereof; The applicant's spouse original ID document whereby the municipality will make a copy thereof

- Application for pauper burial will include a letter from the SAPS stating that the corpse is unidentified.
- Application for pauper burial will include a letter from the SAPS stating that the corpse is unidentified.

7.1.9 Virements Policy

No amendments made

7.1.1 Tariff Policy:

- The policy will be attached as an annexure

7.1.11 Rates Policy

Amendments were made as follows:

- The supplementary valuation roll will be prepared twice every 12 months.

Category	Rate
Residential	0.0131 rebate 20%=0.01048 cent per Rand
Complex and Town houses	0.0131 rebate 20%= 0.01048 cent per Rand
Commercial	0.0131 cent per Rand
Industrial	0.0131 cent per Rand
Agricultural	0.003275 cent per Rand
Government	0.0131 rebate 20%=0.01048 cent per Rand
Educational	0.0131 rebate 20%=0.01048 cent per Rand
Transnet	0.0131 rebate 20%=0.01048 cent per Rand
Exemptions	0.0 cent per Rand
*Residential – Pensioners	0.0131 rebate 50%= 0.00655 cent per Rand

7.1.12 New Policy: Asset Disposal Policy

8. Overview of Budget Assumptions 2016/17 MTREF

In terms of the Local Government Systems Act, section 26 prescribes the core components of the Integrated Development Plan, and section 26 (h) requires the inclusion of a financial management plan which should include a budget projection for at least the next three years. The financial plan is expected to determine the financial affordability and sustainability levels of the municipality over the medium term.

On the other hand, the Municipal Budget Reporting Regulations requires that the Accounting Officer must ensure that the budget related policies are prepared and submitted to Council. One of the policies referred to in the regulations is the Municipality's Long Term Financial Plan which is aimed at ensuring that all long term financial planning of the municipality is based on a structured and consistent methodology thus ensuring sustainability and affordability of municipal services.

For any budget, it is important that the municipality has an appropriate funding mix for operational and capital expenditure budgets thus eliminating future risks of inadequate funding of the Integrated Development Plan and other functions and responsibilities of the municipality.

9. Personnel

For the 2016/2017 budget, the total councillors and employee related costs amounts to R74, 5 million or 26.13% of the operating budget of R 285 million. Provision is made for vacant posts in the 2016/2017 budget. A short summary of some of those positions are:

- Municipal Manager
- Chief Financial Officer
- Director Corporate Services
- Compliance Clerk
- Researcher: MPAC
- Senior Clerk: MPAC
- Budget Preparation Officer
- Team Leader: Meter Reading
- Risk Management Officer
- Caretaker: Bonita Park Hall
- By-Law Officer x2
- Cleaner
- Access Control Officer
- Switch Board Operator
- Registry Officer
- Meter Reader x2
- Plumber
- Assistant Mechanic
- Assistant Town Planner
- Secretary: Mayor's Office
- Town Planner
- IDP Officer

10. FREE BASIC SERVICES

Provision is made in the 2016/2017 budget for the free basic services to the value of R 14 675 million that consists of the following:

- Water : 6 Kilolitre per month for 4300 indigent households - R 1,997,513
- Sewerage : Free basic sanitation for 4300 indigent households per month - R5,155,271
- Refuse Removal : Free refuse removal for 4300 indigent households per month -R2,837,643
- Electricity : 50 kWh per month for 4300 indigent households - R 4,684,527

11. ALIGNMENT OF GRANTS WITH BUDGET PER DoRA ALLOCATIONS

Municipalities play a critical role in furthering government's objective of providing services to all while facilitating local economic development.

The following Grants allocated to the municipality in terms of the 2016/2017 Division of Revenue Bill and Northern Cape been included in this medium term budget:

GRANT	2016/2017	2017/2018	2018/2019
Municipal System Improvement Grant	-750,000	-787,000	-
Municipal Infrastructure Grant	-25,064,000	-26,815,000	-28,167,000
Equitable Share	-109,468,000	-114,035,000	-119,569,000
Provincial Library Grant	-1,511,000	-1,537,000	-1,623,000
FBDM	-	-	-
Extended Public Works Programme Incentive	-1,037,000	-	-
Integrated National Electrification Programme (ESKOM GRANT)	-1,500,000	-	-
Pampierstad Internal Reticulation Refurbishment Grant – DWA	-	-	-
FINANCIAL MANAGEMENT GRANT (FMG)	-1,810,000	-2,145,000	-2,400,000
TOTAL	-141,140,000	-145,319,000	-151,759,000

12. Capital Projects for the 2017/18 and 2018/19 financial year as per the IDP:

CAPITAL PROJECTS			
PROJECTS	2017/2018	2018/2019	FUNDING
Electrification of Guldenskat Township 700 Stands and Upgrading of Bulk	5 000 000	7 500 000	INEP
Installation of High mast light in (Sakhile, masakeng, kingston, bonita park 127, Ganspan)	3 100 000	-	MIG
Upgrading of Bulk Water in Jan Kempdorp	10 000 000	20 000 000	MIG
Upgrading of Bulk Water in Hartswater	15 000 000	15 000 000	MIG
Upgrading of Bulk Sanitation Hartswater	15 000 000	15 000 000	MIG
Upgrading of Bulk Water Pipe Between Jan Kempdorp & Ganspan	12 500 000	12 500 000	MIG/DWA
Upgrading of Pampierstad Raw water Dam	10 000 000	1 000 000	MIG/DWA
Upgrading of Bulk Water Reservoir Bonita Park & Thagadielapalang	10 000 000	10 000 000	MIG/DWA
Ganspan Waste Water Treatment Works & Related Bulk Sewer Structure	15 000 000	13 000 000	MIG/DWA
Refurbishment of Internal Water Pampierstad Phase 5	10 000 000	20 000 000	DWA
Installation of Water Reticulation for 32 Stands Magogong	1 000 000	-	COGHSTA
Installation of Sewer Reticulation in Plakkerskamp	1 800 000	-	COGHSTA
Installation of Water Bonita Park Bloemkom	3 500 000	-	COGHSTA
Installation of Water Reticulation Guldenskat Township 609 Stands	10 000 000	15 000 000	FBDM
Installation of Water Reticulation in Kingston Extension for 400 Stands	10 000 000	5 000 000	COGHSTA
Installation of Water Connection 100 Stands in Ganspan	1 700 000	-	COGHSTA
Installation of Sewer Connection Magogong	1 400 000	-	COGHSTA
Installation of Sewer Reticulation Plakkerskamp	3 200 000	-	COGHSTA
Installation of Sewer Reticulation Guldenskat 609 Stands	-	26 100 000	COGHSTA
Installation of Sewer Reticulation Kingston 400 Stands	17 000 000	-	COGHSTA
Installation of Sewer Reticulation Ganspan 1200 Stands	10 000 000	10 000 000	COGHSTA
Upgrading of Street & Stormwater in Valspan LIC Phase 1	10 000 000	10 000 000	MIG
Hartswater Construction of 2,8 km Road	7 197 365	-	DPW
Construction of Street & Stormwater 900 Houses Pampierstad	-	10 000 000	MIG
Pampierstad Surfaced Ring Road for 1400 Stands	-	14 000 000	MIG
Upgrading of Main Road & Stormwater Pampierstad	2 000 000	-	DPW
Hartswater 7 Pampierstad Stormwater LIC Project Phase 1,2,3	3 000 000	5 000 000	DPW
Electrification of Nkandla 2 for 1500 Stands in Hartswater	10 000 000	10 000 000	INEP
Bulk Sewer for 127 Stands in Bonita Park	10 000 000	10 000 000	MIG
Refurbishment of Old System & Fencing, Valspan WWTW	8 500 000	1 500 000	FBDM
Development of Bulk Water Supply Magogong Station	3 000 000	-	FBDM
Water Quality Monitoring Lab Equipments	3 000 000	-	FBDM
Water Conservation Demand Management	500 000	500 000	FBDM
Pampierstad Bulk Water Infrastructure Phase 2(1302)	3 065 229	-	INTERNAL
Bulk Water Supply Including Sakhile 1450 Stands(1089)	6 770 858	-	INTERNAL
TOTAL	232 233 452	231 100 000	

Recommendation

- That Council approve the Final Budget for both Operating and Capital Budget for 2016/2017 as proposed in terms of the above report.